The answers on isas

Inland Revenue

your guide

isa individual savings account

Everyone who can afford to should try to save at least a little. The Government has designed ISAs to provide several ways for you to save – without paying tax on what you earn from your investment. And you can put money in and take it out whenever you want to.

For example, you could start with a few pounds in a simple cash ISA, for ‘rainy day’ savings that you need to get at quickly.

Or you might consider investing in a stocks and shares ISA, for longer-term saving.

You could also choose a life insurance ISA for longer-term saving, with some built-in cover in the case of your death.

This booklet will give you the information you need to help make your savings decisions.

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ABOUT THIS BOOKLET

The Individual Savings Account ('ISA' for short) is a new tax-free scheme designed by the Government to help you save your money. This booklet will tell you about ISAs and how they work, so you can decide if saving in an ISA would be right for you.

The first part, printed on blue pages, gives you just the basic facts – the essentials you'll need to know in order to make an informed choice. The second part, on orange pages, should answer most other questions you may have. The third part, on white pages, goes into specific subjects in greater detail.

If you have any general questions about the tax rules for ISAs that this leaflet does not cover, you can call the Inland Revenue ISA Helpline on 0845 604 1701, between 8.30 am and 4.30 pm Monday to Friday (calls are charged at local rates).

THE BASIC FACTS

So, what is an ISA?

An ISA is a type of savings account. Basically, if you save in an ISA you are entitled to keep all that you earn from that investment and not pay any tax on it. This is not the case with, for example, an ordinary bank or building society account (unless you do not pay tax).

ISAs are available from 6 April 1999 and will be around for at least 10 years. You can start with small amounts and save up to £7,000 in the 1999/2000 tax year (which runs from 6 April 1999 to 5 April 2000), and up to £5,000 in each tax year after that.

Why would I want one?

ISAs are a good way to save. The important thing about them is that you do not have to pay tax on the money you earn from them. You can put money in and take it out whenever you want. And you don't even have to tell your Tax Office that you have an ISA.

Where can I get one?

You can get ISAs by going to an ISA manager. These include banks, building societies, National Savings, some supermarkets and retailers, friendly societies, insurance companies, unit and investment trust companies, financial advisers and stockbrokers. Your ISA manager will look after your account for you.

Are they flexible?

Yes. The ISA scheme has been designed to provide different ways of saving to meet people's different needs. You can plan for the short term, or put your money away for much longer.

There are three ways – called 'components' – in which your money can be invested: cash savings, stocks and shares, and some specially designed life insurance policies.

- Cash ISAs may be suitable for short-term savings, so that you can get at your money easily.
- Stocks and shares ISAs may be appropriate if you can afford to leave your money untouched for longer than, say, five years, though your investment may go down in value as well as up, and you are not guaranteed to make a profit.
- Life insurance ISAs are also for long-term saving and offer some built-in life cover in the case of your death. Again, you are not guaranteed to make a profit and you may get back less than you put in, particularly if you take your money out after only a few years. But some types of policy, including 'with profits' policies, are designed to protect you against sudden falls in the stock market.

How do I find out about them?

ISA managers will give you details of the ISAs they offer, and may provide advice about which would be right for you. Alternatively, you could go to an independent financial adviser for help in choosing the best option. The Financial Services Authority's booklet, the *FSA guide to financial advice*, which you can get by calling the FSA Helpline on 0845 606 1234 (calls are charged at local rates) gives more information.

How much can I save?

You can save as little as you like. You can save as much as £7,000 in the 1999/2000 tax year and up to £5,000 in each subsequent tax year.

You can pay into your ISA whenever you want. You can pay the full amount in one go, make regular payments or pay in when you like. You can stop making regular payments at any time.

How do I get one?

Simply apply to the ISA manager of your choice. You could visit a branch, or write to them. Some companies allow you just to telephone, fax or email.

What you have read so far is the basic information you need to know about ISAs.

If you want to know more, read on. The orange pages provide answers to further general questions about ISAs. The white pages go into more detail on specific subjects.

YOUR QUESTIONS ANSWERED

Can I have an ISA?

To open an ISA you have to be aged 18 or over and resident and ordinarily resident in the UK for tax purposes (ask your Tax Office if you are in any doubt about this).

Crown employees, such as diplomats or members of the armed forces, who are working overseas and paid by the Government are eligible to open an ISA.

You cannot hold an ISA jointly with, or on behalf of, anyone else.

How do I choose an ISA?

Types of ISA

There are two main types of ISA, called Maxi and Mini ISAs.

A ***Maxi ISA*** can include cash, stocks and shares and life insurance in a single ISA with one manager.

Mini ISAs mean you can have separate ISAs, from different managers, for cash, stocks and shares and life insurance.

There are other differences between Maxi and Mini ISAs, and ISA managers can advise you about these. For more detailed information, turn to page 24.

Standards to look for

The Government has laid down a set of standards to help savers find ISAs that offer reasonable **C**harges, easy **A**ccess, and fair **T**erms – which is why they're known as the 'CAT' standards.

You may want to see if the ISA you are considering meets the relevant standard. ISAs that do will make this clear in their leaflets and posters.

But remember, CAT standard ISAs will not necessarily be suitable for all savers. If a product meets the CAT standards, this does not mean that the performance of the investment is guaranteed, or that the product is approved by the Government.

For more detailed information on the CAT standards turn to page 16.

What the standards promise

Managers of CAT standard ISAs are committed to treating customers fairly. This means they will use plain English and avoid complex or misleading features. In other words, CAT standard ISAs should be simple, clear and fair.

CAT standard ISAs are available for sale on their own. Savers will not be forced to buy any other product along with a CAT standard ISA.

How do I choose an ISA manager?

Things to bear in mind

Does the ISA manager offer the kind of ISA you want? Managers may offer both Maxi and Mini ISAs, or only one. They may offer cash ISAs, stocks and shares ISAs and life insurance ISAs, or only one or two of these.

Some managers may offer ISAs that can include only that company's own products. Others may offer a choice of their own or other companies' products. Or they may offer 'self-select' ISAs, where you can choose from a wide range of shares and securities.

What are the charges? Make sure you know whether the ISA manager will charge for running your ISA, including any charges for withdrawals and transfers. CAT standard ISAs have limits on charges. (For more detailed information on the CAT standards, see page 16.)

All ISA managers must be approved by the Inland Revenue but neither they nor any other Government Department have approved any ISAs. They do not guarantee that any ISA manager is able to manage an ISA satisfactorily, or that any ISA investment will produce the expected return.

Switching from one ISA manager to another

You can transfer your ISA to another ISA manager whenever you want.

You can usually transfer simply by applying to a new ISA manager. Your existing ISA manager can't stop you

transferring, but they may make you pay a charge, or insist that you sell any existing ISA investments and transfer cash (this will be specified in the ISA terms and conditions).

However, ISA cash, savings and investments must always remain in the same component. You cannot move funds from, say, a cash ISA with one manager to a stocks and shares ISA with another.

If you want to transfer the money you have put into your ISA in the current year, you must transfer all of it. If you do this, any more money you want to put in in the current year must go into the new ISA. You can also transfer some or all of the money you put into your ISA in earlier years. Some managers may not allow you to transfer part of your ISA. Your existing ISA manager will be able to tell you how much you can transfer.

How many and how much...?

How many ISAs can I have?

In each tax year you can put money into either one Maxi ISA or up to three Mini ISAs – one each for cash, stocks and shares and life insurance.

Each year you can either start new ISAs or you can put money into existing ISAs. But you can only put money into one Maxi ISA, or one Mini ISA of each type, in any particular tax year.

You may also be able to put money into a TESSA-only ISA if you have a TESSA that has matured. See page 22 for more detailed information about this.

How much money can I put into ISAs?

In the 1999/2000 tax year (which ends on 5 April 2000) you can save up to £7,000 in total. You can then save up to £5,000 in each subsequent tax year.

There are limits on how much of this money you can put into cash savings, stocks and shares or life insurance, as this table shows:

	1999/2000	**Later years**
Maxi ISA	£7,000	£5,000
made up of:		
stocks and shares	*up to* £7,000	*up to* £5,000
cash	*up to* £3,000	*up to* £1,000
life insurance	*up to* £1,000	*up to* £1,000
Mini ISA		
stocks and shares	£3,000	£3,000
cash	£3,000	£1,000
life insurance	£1,000	£1,000

Remember, you can only put money into either one Maxi ISA or up to three Mini ISAs in each tax year.

Turn to page 24 for more detailed information on limits.

What happens if ...?

... I change my mind?

ISA managers offering some kinds of ISA must give you a 'cooling off' or cancellation period (usually 7 or 14 days), in which you can change your mind about buying. If you change

your mind within that time you will be free to put money into an alternative ISA in the same tax year with the same or a different manager.

If you change your mind *after* that time, or in a case where there is no cancellation or cooling off period, you will not be able to put money into another ISA of the same type in the same tax year. But you could transfer the existing ISA to another ISA manager.

… I want to take my money out?

You can take your money out at any time, without losing any tax relief you have already built up. However, some ISAs may run for a fixed period or require notice of withdrawal, and you may lose some interest or a bonus if you withdraw early. In some cases there may also be a penalty if you surrender an ISA life insurance policy early.

With a stocks and shares or life insurance ISA you may not get back all the money you put in, particularly if you withdraw during the early years of an investment.

If you take money out, any that you put back later will count against the ISA limits for the year.

… I want to change the savings and investments in my ISA?

You can switch from one savings product or investment to another at any time within the same component. But a particular ISA may only allow certain savings or investments. If you want to include savings and investments that are not available for your ISA, you may have to transfer to another manager.

… I have a complaint?

The first step is to take it up with your ISA manager. They will have a complaints department, which should be able to help you.

If you are not happy with the answer you get, you can take the matter up with the relevant regulator or ombudsman (these are bodies responsible for overseeing the financial services industry). Anyone who provides or manages ISA investments is subject to regulation to protect your interests. Your ISA manager will tell you who to write to, or you can ring the Financial Services Authority's Helpline on 0845 606 1234 (calls are charged at local rates).

… I pay into too many ISAs?

If by mistake you put money into more than one Maxi ISA, into a Maxi and a Mini ISA, or into more than one Mini ISA of the same type in the same tax year, then the payment into the second ISA is invalid. You must tell your ISA manager about this as soon as possible.

… I go abroad?

If you start an ISA in the UK and then go abroad, you cannot carry on putting money into the ISA (unless you are a Crown employee working overseas). But the ISA will remain in existence and you will still get tax relief. When you return you can start putting money in again (subject to the normal annual limits).

… I die?

Your ISA will end on the date of your death. There will be no tax to pay on income or capital gains up to that date, but your personal representatives will have to account for tax on any income or gains arising after your death.

The ISA manager will either sell the investments and pay the proceeds to your personal representatives (or a beneficiary of your estate) or transfer the investments directly into their hands. The terms and conditions of the ISA may specify this.

An ISA life insurance policy will pay out on your death. Your personal representatives will have to claim the death benefit. There will be no tax to pay on income or capital gains which arise before the insurer accepts the claim. But your personal representatives will be taxed on any interest that is paid if there is then a delay in paying out the claim. The insurer will deduct tax at the lower rate before paying over the interest.

ISA investments form part of your estate for Inheritance Tax purposes.

What are the tax benefits?

- You pay no tax on any of the income from your ISA savings and investments. This includes dividends, interest and bonuses.
- You pay no tax on capital gains arising on your ISA investments. (But note that this means that losses on ISA investments cannot be allowed for Capital Gains Tax purposes against capital gains outside your ISA.)

- Your ISA manager will arrange for tax credits attached to dividends from UK companies (which from April 1999 have a value of 10 per cent) to be paid into your ISA until 5 April 2004. Dividends from companies based outside the UK do not carry a tax credit.
- The insurer does not have to pay tax on income and capital gains on investments (including claiming tax credits on dividends from UK companies) used to back your ISA life insurance policies. And you do not have to pay any tax when the policy pays out.
- You can take your money out at any time without losing tax relief.
- You do not have to declare income and capital gains from ISA savings and investments – or even tell your Tax Office that you have an ISA.

Other questions

What about employee share schemes?

If you are in an Inland Revenue approved all-employee share scheme run by your employer (that is, a savings related share option – 'sharesave' – or profit sharing scheme) then you can transfer any shares you get from that scheme into the stocks and shares component of an ISA without having to pay Capital Gains Tax, provided your ISA manager agrees to take them.

The value of the shares at the date of transfer counts towards the annual limit. This means you can transfer up to £7,000-worth of shares in 1999/2000, or £5,000 in any later year (assuming that you make no other payments to ISAs, except a TESSA-only ISA in those years).

Remember that if you want to transfer more than £3,000-worth of shares you must have a Maxi ISA. See page 24 for further details.

The shares must be transferred within 90 days from the day they emerge from the scheme (or, in the case of an approved profit sharing scheme, from the third anniversary of the date the shares were given to you, if earlier).

Your employer should be able to tell you more.

Can I use an ISA to back a mortgage?

Yes, but you should discuss this with your financial adviser or mortgage lender.

Can I get reports and accounts of the companies in my stocks and shares ISA?

Yes. Your ISA manager can arrange for you to get accounts, although there may be a charge. You may also be able to attend and vote at the annual meeting of companies in which your ISA invests.

Some points in more detail

THE CAT STANDARDS

There are different CAT standards for cash, stocks and shares and life insurance ISA investments.

The standard for cash ISAs

Charges	■ There must be no one-off or regular charges of any kind, such as charges for withdrawals or for any regular service (such as use of cash machines). Charges for replacements (such as duplicate statements or lost cards) are permitted, however.
Access	■ The minimum transaction must be no greater than £10. ■ Savers must be able to withdraw their money within seven working days or less.
Terms	■ The interest rate must be no lower than two percentage points below base rate. ■ Upward interest rate changes must reflect base rate movements within a calendar month. Downward changes may be slower. ■ There must be no other conditions (such as limits on frequency of withdrawals).

The standard for stocks and shares ISAs

Charges	■ The total charge must be no more than 1 per cent of net asset value per year. ■ There must be no other charges to be paid by the saver.
Access	■ The smallest amount that can be saved must not be greater than £500 a year for a lump sum, or £50 a month for regular savings.
Terms	■ Investment may be in authorised unit and investment trusts or in open-ended investment companies. ■ A fund must be at least 50 per cent invested in ISA-qualifying shares and securities that are listed on European Union stock exchanges. ■ Units and shares must be single priced (that is, no separate buying and selling prices). ■ The investment risk must be highlighted in product literature.

A CAT standard stocks and shares ISA may hold units or shares in one or more funds which meet these requirements. If holding them in the ISA entails any additional features (such as additional charges) these should be taken into account in deciding whether the ISA meets the standard.

The standard for life insurance ISAs

Charges	■ The annual charge must be no more than 3 per cent of the value of the fund. ■ There must be no other charges (such as a separate charge for the guarantee on surrender values).
Access	■ The minimum premium must be no more than £25 a month for regular savings, or a £250 lump sum.
Terms	■ Surrender values should reflect, over time, the value of the underlying assets of the fund. ■ There must be no specific surrender penalties. ■ After three years, and thereafter, surrender values should at least return the premium.

A CAT standard life insurance ISA may hold one or more life insurance policies. If holding them in the ISA entails any additional features (such as additional charges) these should be taken into account in deciding whether the ISA meets the standard.

A CAT standard life insurance ISA may permit lump-sum savings, regular savings, intermittent savings or any combination of these. The surrender value guarantee applies separately to each premium payment.

SAVINGS AND INVESTMENTS THAT CAN BE INCLUDED IN ISAs

The cash component can include:

- bank and building society accounts
- units in authorised unit trust money market funds ('cash funds') and authorised unit trusts which invest in other authorised unit trusts ('funds of funds') investing in money market funds
- National Savings products which are specially designed for ISAs (but not other National Savings products such as the Investment Account, Savings Certificates or Pensioners' Guaranteed Income Bonds).

The stocks and shares component can include:

- shares and corporate bonds issued by companies listed on a recognised stock exchange anywhere in the world
- gilt-edged securities ('gilts'), similar securities issued by governments of other countries in the European Economic Area and 'strips' of all these securities
- units in UK authorised unit trusts which invest in shares and securities (securities funds, warrant funds and 'funds of funds' which invest in them)
- shares in UK open-ended investment companies (OEICs)
- shares and securities in approved investment trusts (except property investment trusts)
- units or shares in Undertakings for Collective Investment in Transferable Securities (UCITS) funds based elsewhere in the European Union (these are similar to the UK authorised unit trusts and OEICs listed above).

These investments must meet certain conditions to qualify for ISAs. ISA managers will be able to tell you which ones can be included in their own ISAs.

The life insurance component can include:

- 'unit linked' or 'investment linked' policies. This is like a 'pooled' investment such as a unit trust
- 'with profits' policies. This is a more traditional type of life insurance policy where you participate in the profits the insurer makes from investing your premiums through 'bonuses' which the insurer declares, usually once a year.

Note that the life insurance component can include only certain life insurance policies on the saver's own life which are specially designed for ISAs. These may be the ISA manager's own policies, or the ISA manager may offer a range of policies from different insurers.

ISA policies must meet a number of conditions to qualify. Managers of life insurance ISAs will be able to give you details of their own policies.

A note on holding cash in the stocks and shares and life insurance components

Cash may only be held in the stocks and shares and life insurance components of ISAs for the purpose of investing in qualifying stocks and shares or life insurance policies. This includes cash subscriptions, interest and dividends, and proceeds from disposals of qualifying investments which have not yet been reinvested.

The ISA manager may pay interest on this cash while it is held in the account. There is no income tax to pay on this interest but the manager is required by law to deduct a flat rate 20 per cent charge before crediting it to the account. You do not have to declare this interest on a tax return.

ISAs AND TESSAs

New TESSAs cannot be started after 5 April 1999. TESSAs already opened at that date, however, can continue to run to maturity under the normal TESSA rules. You can go on putting money into your TESSA up to the annual TESSA limits, and within the overall £9,000 limit, even if you have an ISA too.

If your TESSA matures after 5 April 1999

You can transfer some or all of the money you paid into the TESSA (but not interest or bonuses) into the cash component of an ISA. This is *on top of* your normal annual ISA limits. You can transfer the money from your TESSA into:

- the cash component of a Maxi ISA; or
- a cash Mini ISA; or
- a special ISA, called a TESSA-only ISA, which is set up specially to receive money from a matured TESSA.

You must do this within six months of the date the TESSA matures. Your ISA manager will tell you what to do and what evidence you need of the amount you can transfer from your matured TESSA.

If your TESSA matures before 6 April 1999

There are special arrangements for TESSAs which mature between 6 January and 5 April 1999. In this case you can either:

- open a new ‘follow-up’ TESSA up to 5 April 1999; or
- put the money from your matured TESSA into an ISA after 5 April and up to six months from the date the TESSA matured.

Inland Revenue leaflet IR114, *TESSA*. *Tax free interest for taxpayers,* which you can get by calling the Inland Revenue Orderline on 0645 000 404 (calls are charged at local rates), will tell you more about follow-up TESSAs.

You can only transfer the money you put into your matured TESSA, not interest and bonuses.

THE CHOICE BETWEEN MAXI OR MINI

With a Maxi ISA the limits for the components within it are flexible. If you do not put the maximum into the cash or life insurance components (where they are offered by the Maxi ISA), you can put the excess into the stocks and shares component.

With Mini ISAs the limits are fixed. This means that even if you put nothing into, say, a cash Mini ISA during the year, you could still only put £3,000 into, say, a stocks and shares Mini ISA.

This table shows how many ISAs you can have and how much money you can put into each:

Your options in a tax year	**Total investment allowed in 1999/2000**	**Total investment allowed in subsequent years**	**Maxi or Mini?**
One Maxi ISA	Up to £7,000 but no more than £3,000 in cash and £1,000 in life insurance	Up to £5,000 but no more than £1,000 in cash and £1,000 in life insurance	You should always choose a Maxi ISA if you want to invest more than £3,000 in stocks and shares
Up to three Mini ISAs	Up to: ● £3,000 in a stocks and shares ISA ● £3,000 in a cash ISA ● £1,000 in a life insurance ISA	Up to: ● £3,000 in a stocks and shares ISA ● £1,000 in a cash ISA ● £1,000 in a life insurance ISA	You should always choose Mini ISAs if you want different managers to manage your different kinds of savings
And remember, you can also put any money you paid into a maturing TESSA into a cash Mini ISA or into the cash component of a Maxi ISA or into a TESSA-only ISA.			

Whether you choose a Maxi or a Mini ISA in any year is up to you, but remember:

- if you want to invest more than £3,000 in stocks and shares, you must open a Maxi ISA
- if you want different ISA managers for different kinds of saving, you will need Mini ISAs
- always shop around for the arrangement that will give you the best deal or is most convenient.

GETTING MORE HELP AND ADVICE

If you have any general questions about the tax rules for ISAs that this leaflet does not cover, you can call the Inland Revenue ISA Helpline on 0845 604 1701 between 8.30 am and 4.30 pm Monday to Friday (calls are charged at local rates).

Further information is also available on the Internet at:
www.inlandrevenue.gov.uk

We can provide you with factual information about ISAs, but we cannot advise you on whether you should open an ISA, or about particular ISA products. An authorised financial adviser, or the ISA manager concerned, can help you with individual advice.

The Financial Services Authority (FSA) regulates financial services and protects consumers, and provides information about savings and investment. You can call the FSA Helpline on 0845 606 1234 (calls are charged at local rates).

The FSA can tell you if a firm or adviser is authorised, and can help you if you have a complaint and are unsure whom to contact. However, it cannot recommend firms or advisers, or tell you whether a particular investment is right for you.

These notes are for guidance only and reflect the tax position at the time of writing. They do not affect any right of appeal.

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